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SUBJECT: Mexico Economic Weekly - January 9

¶1. (U) The Mexico Economic Weekly supplements reporting from Mission Mexico Consulates and the Embassy Mexico Economic Section to provide a sense of ongoing trends. Please contact Adam Shub (shubam@state.gov) or Sigrid Emrich (emrichs@state.gov) for questions or comments about this report.

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ECONOMY AND FINANCE

13. (U) REMITTANCES FALL AS PRICES FOR BASIC GOODS RISE: The downward trend in remittances continues as November statistics show a 14.4% drop in year-over-year measurements. Remittances, down on average 13% since 2008, are currently at levels close to what they were in 2005. Manuel Orozco, Director of the Remittances and Development Program at the Inter-American Dialogue and one of the original students of modern Latin American remittances, predicts that remittances could recover by as much as 5% by the second trimester of 2010 as the U.S. job market begins to recover and add jobs.

Mexico's Minimum Wage Commission approved an increase in the minimum wage of around 5% or 2 pesos, effective January 1. Depending on the geographic area, Mexicans currently earn between MX\$57.46 pesos daily (US\$4.45) and MX\$54.47 (US\$4.22). Mexican newspapers announced in early January that prices for staple foods and fuels are likely to rise at least in early 2010. Gasoline and diesel fuel have already increased from 6.3 to 8.16 pesos per liter, and tortillas are likely to follow, increasing in cost by around 50 centavos. The price of items in the basic basket of goods in Mexico City has increased by around 30% due to the increased costs of gas and gasoline. An announcement about the cost of bread, thus far stable, will be made in early January.

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Mexicans also face the increased Value-Added Tax (IVA) rate, up 1% from 15% to 16% this year. (Mexico City)

14. (U) DECEMBER RETAIL SALES UP IN REYNOSA IN SPITE OF RETAIL COMPETITION FROM TEXAS: Retailers had a strong, positive December close due to strong sales December 22-24, according to Ad???n Cisneros de la Rosa of the Camara Nacional de Comercio (CANACO) in Reynosa. De la Rosa added Reynosa retail businesses are at a disadvantage competing against retail in south Texas. He said there is a lack of retail advertising that could capture some Mexican shoppers who pass through Reynosa on their way to south Texas. (Matamoros)

15. (U) ECONOMY AND VIOLENCE CAUSE SHARP DECLINE IN EL PASO BORDER TRAFFIC; SANTA TERESA BENEFITS: Passenger vehicle and commercial truck traffic at El Paso ports-of-entry fell by a combined 16 percent from 2008 to 2009, according to Customs and Border Protection statistics. The number of commercial trucks entering the El Paso sector fell from 834,435 in 2008 to 707,230 in 2009, while 2.7 million fewer passenger vehicles crossed northbound (15,972,615 - '09; 13,289,381 - '08). El Paso CBP spokesman Roger Maier said the recession and concerns about safety in Juarez were responsible for the decline. In contrast to this downward trend, the Santa Teresa POE located ten miles west of Juarez was the only border crossing in the El Paso Sector to experience an increase in traffic, with passenger vehicle and cargo traffic both increasing by 13 percent year-over-year (passenger vehicles: 424,797 - '09; 377,573 - '08; commercial trucks: 51,276 - '09; 45,499 - '08). Assistant El Paso Port Director Isabel Mullens attributed the increase to expanded hours at the Santa Teresa POE, improved highway infrastructure south of the Santa Teresa POE, and the opening of a major new manufacturing plant near the POE. (Ciudad Juarez)

16. (U) BANORTE BECOMES FOURTH LARGEST RETIREMENT FUND IN MEXICO: Banorte Financial Group, a Monterrey-based bank, bought out Afore Argos, a pension fund manager, for US\$46.2 million on December 21. Banorte will take over Argos' 22,000 clients and become the fourth largest retirement fund in Mexico. This comes after a June 10

acquisition of Ixe Afore, another pension fund with assets over US\$420 million. (Monterrey)

TRADE AND INVESTMENT

17. (U) METALSA ACQUIRES ASSETS FROM U.S. CORPORATION: Metalsa (formerly Monterrey Metals Manufacturing), an automobile parts manufacturer based in Apodaca, acquired the structural products business of U.S.-based Dana Holding Corporation for US\$ 150 million. This acquisition strengthens Metalsa's position as a global supplier providing structural components to the light and commercial vehicle markets. Under the terms of the agreement, Metalsa, a subsidiary of Grupo Proeza, will assume control of 10 Dana manufacturing facilities that produce structural components for chassis and body structures in light and commercial vehicles, including accompanying administrative, technical and sales centers. These facilities are located in Argentina, Australia, Brazil, the U.S., and Venezuela. (Monterrey)

TRANSPORTATION AND INFRASTRUCTURE

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18. (U) ANZALDUAS INTERNATIONAL BRIDGE UPDATE: The ceremonial opening of Anzalduas International Bridge is scheduled to take place January 11th. Ambassador Kirk, U.S. Trade Representative and Mexican President Calderon will inaugurate the bridge along with officials from the Mexican state of Tamaulipas and Texas. According to traffic reports, the bridge has averaged 2,400 southbound vehicles per day since opening December 15th. Local U.S. and Mexican media reports have highlighted that the new crossing is up to 30 minutes faster than the Pharr-Reynosa Bridge for travelers coming north from Monterrey. On Dec 23rd Customs and Border Patrol (CBP) recorded the first drug seizure of 123 pounds of Marijuana. On December 30th, CBP officers arrested Isis Cristal Sanchez-Hernandez on alien smuggling charges in the first alien smuggling case recorded at Anzalduas. According to news reports, Sanchez-Hernandez attempted to smuggle two Mexican citizen children into the U.S. using fake birth certificates from Hidalgo and Starr Counties in Texas. (Matamoros)

LABOR

19. (U) SME CLASHES WITH POLICE: On December 3, a violent confrontation took place between ex-members of the defunct Sindicato Mexicano de Electricistas (SME) and Comision Federal de Electricidad (CFE) workers who replaced them. Federal police were present in their function of protecting the electricity distribution plants from disturbances like this, and they were able to prevent the violence from escalating dramatically. According to news sources, ex-members of the SME attempted to prevent CFE workers from leaving the electricity plant. The police responded in defense of the CFE workers, and the scuffle left six wounded.

Ex-SME members claimed that they were protecting their property from privately hired workers (non-CFE) who were badly damaging their goods. The SME continues to accuse the police of provoking the confrontation. On the morning of January 6, the Day of the Three Kings in Mexico, ex-SME workers carried three pi????atas shaped like Labor Secretary Javier Lozano to the Lozano's house and broke them open with a baseball bat.

Since late November the SME's cause has suffered serious legal setbacks. The courts have ruled consistently that the GOM's actions in shutting down Luz y Fuerza del Centro (LFC) were legal and that, while unfortunate, it was legal to dismiss all the workers. The SME has only one case outstanding at this point, and it is likely to be decided against the workers. Around 63% of former workers have accepted the severance package offered, many under economic duress. (Mexico City)

¶10. (U) MEXICO NOT REQUESTED TO REPORT ON CHILD AND FORCED LABOR: Mexico will not report to the Department of Labor (DOL) this year on the Trade Development Act (TDA) or the Trafficking Victims Protection Reauthorization Act (TVPA) reports. Mexico is not on DOL's Worst Forms of Child Labor list this year, excusing it from the TDA report. DOL believes it has sufficient information from previous reports and research to also exclude Mexico from the TVPA report, despite Mexico's appearance on DOL's September 2009 TVPA list of goods. The TVPA report requires reporting only on products not already listed on the TVPA list of goods. (Mexico City)

¶11. (U) NUEVO LEON UNEMPLOYMENT REMAINS HIGH: According to IMSS
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statistics, 45,823 people in Nuevo Leon were laid off in October 2009 and were unable to find new jobs by November. Overall, the state registered 145,881 job losses in the first trimester of 2009, 149,580 in the second trimester, and 178,840 in the third trimester. (Monterrey)

ENERGY AND ENVIRONMENT

¶12. (U) RAISE IN GAS AND DIESEL PRICES PROVOKES LIMITED TRANSPORTATION STRIKE: Members of the National Confederation of Retailers and Carriers of the Republic of Mexico (CNCTRM) blocked highways in Hidalgo, Veracruz, and Puebla on December 4. They are protesting the increase in prices of diesel from 6.3 (\$0.49) to 8.16 (\$0.63) pesos/ liter. The CNCTRM has called for a national strike and has promised to announce it 24 hours in advance to minimize problems for the GOM and for Mexicans. Two other important transportation groups - the Mexican Alliance of Organizations of Carriers (Amotac) and the National Association of Private Carriers (ANTP), who between them control 90% of cargo shipping in Mexico - have announced that they will not participate in the CNCTRM strike. (Mexico City)

¶13. (U) POLITICIANS AND BUSINESSMEN COMPLAIN ABOUT FUEL PRICE INCREASES: Rogelio Badillo Arcadia, president of the Baja California chapter of the Camara Nacional de Autotransporte de Carga (CANACAR) claims the eight-cent increase for magna and diesel and nine-cent increase for premium fuels which went into effect in Tijuana, Rosarito, and Tecate on January 1 will have a negative

impact on jobs and prices in the region, noting that 82% of products in Mexico are transported by truck. Gas station owners in Baja are particularly concerned that customers will look for cheaper gas in California (NOTE: the opposite occurred when gas prices spiked in the U.S. in 2008 and both U.S. and Mexican truckers, unsurprisingly, chose to fill up on cheaper, subsidized Mexican gas. However, stories that surfaced at the time of throngs of Americans filling up in Baja were exaggerated). (Tijuana)

¶14. (U) PEMEX BEGINS BIOFUEL PRODUCTION AT CADEREYTA REFINERY: In December 2009 PEMEX began production of biodiesel at the Cadereyta refinery in Nuevo Leon. The president of the Federal Congress' Energy Commission, Felipe de Jesus Cantu Rodriguez, stated that the company plans to invest rigorously in the refinery in the coming years to convert it into one of Mexico's most important fuel sources. Cantu said that over the next 20 years, an investment in the order of USD\$20 billion would be necessary to increase the efficiency of existing biofuel technology. The refinery currently produces 8.7 million liters of biodiesel every year; managers hope to increase this amount to 108 million liters per year during the 2011-2014 time-frame. (Monterrey)

SCIENCE AND TECHNOLOGY

¶15. (U) I2T2 SIGNS AGREEMENT WITH QUEBEC BIOTECH CENTER: Jaime Parada, director general of the Institute of Innovation and Transference of Technology (I2T2), announced on December 17 an agreement between I2T2 and the Quebec Center of Biotech Innovation (CQIB) to exchange advice, counseling, and business opportunities. The two organizations have invested US\$5 million in an effort to

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establish a biotechnology business incubator. The director general explained that the Canadians would guide I2T2 to lessen the learning curve, support scientific exchange of ideas, and strengthen Canadian and Mexican relations. Meanwhile, I2T2 contemplated helping Quebec take advantage of venture capital opportunities, thereby fostering entrepreneurship in the region. CQIB has raised US\$8 billion for venture capital investments and launched the Nuevo Leon Fund for Innovation (Fonlin), which is in the process of analyzing 200 projects, four of which have already been approved for funding. (Monterrey)

¶16. (U) SCHNEIDER ELECTRIC OPENS INNOVATION AND TECHNOLOGY CENTER: Schneider Electric, a French electric equipment company operating in Mexico through its U.S. subsidiary, held an inauguration ceremony for a new Center of Innovation and Technology (CIT) in Monterrey. According to the company, the center was created at the request of clients. The center will support clients in developing methods for increasing processing productivity and finding competitive advantages in their respective markets. AmCham Monterrey also played a significant role in persuading Schneider to expand its operations locally. (Monterrey)
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